TRACK DATA CORP
Form 10-K
March 30, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

þ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2005

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 0-24634

TRACK DATA CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	**22-3181095** (I.R.S. Employer Identification No.)
95 Rockwell Place **Brooklyn, New York** (Address of principal executive offices)	**11217** (Zip Code)
(718) 522-7373 (Registrant's telephone number)	

Securities registered pursuant to Section 12(b) of the Exchange Act: **None**

Securities registered pursuant to Section 12(g) of the Exchange Act: **Common Stock, $.01 par value**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
o Yes þ No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
o Yes þ No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated Filer o   Accelerated Filer o Non-Accelerated Filer þ

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes þ No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant's most recently completed second fiscal quarter. Based on the average bid and ask price of the Company's Common Stock on June 30, 2005 of $2.45 per share. $11,219,000

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

8,380,000 shares of common stock, $.01 par value, as of February 28, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

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PART I

Disclosures in this Form 10-K contain certain forward-looking statements, including, without limitation, statements concerning the Company's operations, economic performance and financial condition. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "believe," "expect," "anticipate" and other similar expressions generally identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. These forward-looking statements are based largely on the Company's current expectations and are subject to a number of risks and uncertainties, including, without limitation, changes in external market factors, changes in the Company's business or growth strategy or an inability to execute its strategy due to changes in its industry or the economy generally, the emergence of new or growing competitors, various other competitive factors and other risks and uncertainties indicated from time to time in the Company's filings with the Securities and Exchange Commission. Actual results could differ materially from the results referred to in the forward-looking statements. In light of these risks and uncertainties, there can be no assurance that the results referred to in the forward-looking statements contained in this Form 10-K will in fact occur. The Company makes no commitment to revise or update any forward looking statements in order to reflect events or circumstances after the date any such statement is made.

ITEM 1. BUSINESS

Track Data Corporation (the “Company”) is a Delaware corporation that was formed in 1981. The Company maintains offices in the U.S. and Europe, with executive offices located at 95 Rockwell Place, Brooklyn, New York 11217. Its telephone number is 212-943-4555 or 718-522-7373.

The Company is a financial services company that provides real-time financial market data, fundamental research, charting and analytical services to institutional and individual investors through dedicated telecommunication lines and the Internet. The Company also disseminates news and third-party database information from more than 100 sources worldwide. The Company owns Track Data Securities Corp. ("TDSC"), a registered securities broker-dealer and member of the National Association of Securities Dealers, Inc. The Company provides a proprietary, fully integrated Internet-based online trading and market data system, proTrack, for the professional institutional traders, and myTrack and myTrack Pro, for the individual trader. The Company also operates Track ECN, an electronic communications network that enables traders to display and match limit orders for stocks.

Background

Since its inception in 1981, the Company has been providing real-time financial market data to institutional customers through the operation of its own proprietary ticker plant. In 1998, the Company began to offer financial market data to individuals through the Internet. Later, through its wholly owned broker-dealer subsidiary, TDSC, the Company combined an online trading application with its market data in its myTrack service. In 2002, trading for institutional customers was introduced with proTrack. Further, the Company commenced operations of its Track ECN. The Company has recently introduced a new low priced trading application, myTrack Pro, engineered for the hyperactive traders, with a particular focus on options traders. The Company now offers trading and market data services to all members of the financial trading community. The offerings include trading in stocks, options, e-mini futures and foreign currency. Trading in foreign stocks is expected to be added in 2006.

Segments

The Company’s operations are classified in three business segments: (1) Internet-based online trading, market data services and ECN services to the institutional professional investment community, (2) online trading and market data services to the non-professional individual investor community, and (3) arbitrage trading. See Notes C and E of Notes to Consolidated Financial Statements.

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A. ONLINE TRADING, MARKET DATA SERVICES AND ECN SERVICES TO THE INSTITUTIONAL PROFESSIONAL INVESTMENT COMMUNITY

MarkeTrack

MarkeTrack provides domestic and international market information, dynamically updating quotelines, options and futures displays, real-time spreadsheets, tick-by-tick updating graphics, news services and third-party databases, user-defined screen layouts, access to back-office order and execution services, and over 20 years of graphical price history. It allows users to calculate theoretical values of options and determine the most beneficial investment strategy through calculating returns on alternative investments, including options and futures. Service charges range between $250 and $600 per month per user. MarkeTrack currently serves approximately 1,300 customers in trading and institutional investment management positions. Customers include floor traders, block traders, market makers, OTC traders, options specialists, head traders, arbitrageurs and hedge fund managers.

proTrack Online Trading

The Company offers proTrack as a direct access state-of-the-art trading system for the professional market. Among many trading features offered by proTrack are point and click equities and options trading, direct access to market makers and ECNs, hot keys, smart order routing, reserve book, quick modification of existing orders, multiple order types and a wide variety of market data and news. proTrack offers trading through the Company's wholly-owned broker-dealer subsidiary, TDSC, clearing through Penson Financial Services, Inc., and is also available for use by other broker dealers under a service bureau arrangement. Pricing is dependent on trading volume, market data services required and necessary clearing costs.

Electronic Communications Network

TDSC operates an Electronic Communications Network (“ECN”) that enables traders to display and match limit orders for stocks. The ECN allows trading of Nasdaq National Market, SmallCap, Bulletin Board and exchange-listed securities on its platform. In order to set the Track ECN apart from others, the Company has incorporated state-of-the-art trading functionality into the ECN. This functionality is normally available only on sophisticated front-end trading platforms.

Track ECN pays subscribers who add liquidity $.0027 per share on a monthly basis and charges $.003 per share to market participants who take liquidity. When takers of liquidity send their orders directly to Track ECN, instead of going through the Nasdaq facility, Track ECN pays $.0023 per share to the adder and charges a net of $.0025 to the taker of liquidity. With a spread between rebate and charge of $.0002 to $.0003 per share, the Company needs to handle a significant volume to achieve a material financial result. In an effort to keep costs at a minimum, Track ECN became a self-clearing ECN in August 2005. Although TDSC has approval from NASD-R for “clearing” of its Track ECN business, it is a limited approval for it to submit two sided trade data respecting trades which were executed by broker-dealers on the Track ECN. TDSC submits this data to the National Securities Clearing Corporation so that the actual trading counterparties can compare, clear and settle their trades and, except in the case of a rare error, TDSC “drops out” of the clearing process. This effort to "self-clear" was a step to reduce costs of having a third party handle this function.

NewsWatch Service

The Company’s NewsWatch service includes a high-speed consolidated news ticker, an NT-resident database with full-text indexing, access to a variety of third-party databases, and multiple domestic/international exchanges. A typical installation is approximately $300/month at the 5-user level and is scaled down with increased users at a location.

Marketing

The Company markets MarkeTrack to the premium end of the trading markets. Typical customers are institutional sales people, arbitrageurs, market makers and traders.

MarkeTrack, proTrack, Track ECN, as well as the NewsWatch service, are marketed primarily through a dedicated sales force, including 10 full-time sales persons. All services are sold directly, often as a result of on-site presentations and service demonstrations.

In addition to its dedicated sales force, the Company maintains relationships with a number of brokerage firms that actively sell the Company's services to the money management side of the industry for "soft dollars." In a soft dollar arrangement, the brokerage firm pays the Company for services delivered to the money managers. These brokerage firms are typically also customers of the Company.

The Company has ongoing advertising, direct mail, and public relations programs to promote product recognition and educate potential new customers in its targeted markets. In addition, the services are exhibited at major industry trade shows each year.

Competition

The Company competes with many other providers of electronically transmitted financial information. The Company competes in its service offerings to varying extents through price and quality of service.

The Company offers its MarkeTrack service in a highly competitive market in which it competes with other distributors of financial and business information, many of which have substantially greater financial resources. The Company competes, among other things, on the basis of the quality and reliability of its data, the speed of delivery and on the flexibility of its services. In the equity, options and futures trading segments, and the investment management segment, the Company's competitors include Bloomberg Financial and Reuters Group. To a lesser degree, these Company services compete with Thomson One, a Thomson Financial Services company, and various trading/quotation applications provided by market makers and clearing firms.

The Company's proTrack service competes primarily with the Redi System offered by Goldman Sachs, Real-Tick offered by AT Financial and a proprietary system offered by Lava, Inc. There are also many proprietary systems that offer one-stop trading and limited access to other destinations, as well as many other direct access trading systems.

The Track ECN competes with other ECNs that have substantially greater resources and have been operating for a longer period of time. The Company's competitors, among others, are Archipelago, Instinet, Island and Nasdaq/Brut. Recent acquisitions of Archipelago by the NYSE and Island by Nasdaq have created two outsized competitors far larger than Track ECN or any other ECN or regional exchange.

The Company offers its NewsWatch service in a highly competitive market in which it competes with other distributors of news information, many of which have substantially greater financial resources. NewsWatch competes, among other things, on the basis of the quality and reliability of its data, the speed of delivery and on the flexibility of its services. NewsWatch's principal competitor is NewsEdge, a subsidiary of Thomson Financial.

B. INTERNET-BASED ONLINE TRADING, MARKET DATA SERVICES, AND OTHER SERVICES TO THE NON-PROFESSIONAL INDIVIDUAL INVESTMENT COMMUNITY

Internet-Based Online Trading and Market Data Services

The Company offers internet-based online trading and market data service through its myTrack and myTrack Pro products. myTrack and myTrack Pro offer trading of U.S.-based stocks, options and mutual funds, as well as stock index-based futures and foreign currency. myTrack Pro is designed for active individual investors with a special focus on option traders. The Company has targeted active traders and believes that myTrack and myTrack Pro are well suited to satisfy their requirements. For those traders who are the most active and engage in day trading, the Company's myTrack Pro contains multi windows based features and enhancements that are designed to satisfy the needs of the hyperactive trader community. Equity trades on myTrack Pro are currently offered at 1/2 penny per share; options at $1.00 per contract; and futures at $2.30 per contract. Equity trades on myTrack are currently offered at prices starting at $12.95 per trade, but volume trading rebates can result in trade costs as low as $8.20 per trade. Futures are generally priced at $7.00 per contract.

myTrack provides access to comprehensive information on stocks, options, indices, and news, including bid and ask prices, charts, research and other information for any listed or Nasdaq-traded stock and many OTC-BB stocks, as well as the ability to establish and track securities, cash, margin and buying power positions on a real-time basis. Real-time quotes, news, charting and technical analysis are currently available in various pay packages from $19.95 per month plus exchange fees to $95.00 per month (including Nasdaq Level II) plus exchange fees. Volume trading can result in rebates equivalent to the service plan charges.

Customers can also subscribe for myTrack Pro market data. Real-time quotes, news, charting and technical analysis are currently available for $99 (including Nasdaq Level II) plus exchange fees. Volume trading can result in rebates equivalent to the service plan charges.

Other Internet-Based Market Data Services

AIQ Systems

AIQ Systems develops and markets artificial intelligence (AI) based stock market analysis and charting software for personal computers. By simulating the reasoning of top market technicians, AIQ's "Expert Systems" delivers trading signals and valuable market insight, as well as state-of-the-art technical charting and screening capabilities. Prices for AIQ products vary from $39 to $79 per month.

Dial/Data Service

Dial/Data is an Internet-based service that provides historical and end-of-day pricing data for U.S., Canadian and European exchange-traded equities and related instruments, futures, equity options, futures options, mutual funds, bonds, government issues, money markets and indexes. Customers who subscribe to Dial/Data pay a flat monthly rate that ranges from $15 to $85, depending on the type of data received.

Marketing

The Company markets myTrack and myTrackPro by targeting active traders through advertisements. The Company's marketing efforts have included advertisements in financial and various other publications that have a demographic similar to myTrack's and myTrackPro's target market. The Company also promotes these services through Internet web site and banner advertisements, direct mailings and trade shows.

AIQ Systems markets its software products through direct mail, the Internet, print advertising and seminars.

The marketing effort for the Dial/Data service is directed towards the software vendors who offer analytic programs for the individual investor. By agreeing to provide royalties to these vendors, the Company seeks to encourage these vendors to make their programs compatible with the Company's databases, and to encourage customers to select the Company's databases in preference to databases made available by others.

Competition

The Company's myTrack and myTrack Pro online trading service competes with services offered by online brokers, many of which have substantially greater resources. The Company faces direct competition from other discount brokerage firms, many of which provide touch-tone telephone and online brokerage services but do not maintain significant branch networks. The Company also encounters competition from established full commission brokerage firms. In addition, the Company competes with financial institutions, mutual fund sponsors and other organizations, some of which provide (or may in the future provide) electronic and other discount brokerage services.

The Company believes its competition consists of large and small brokerage firms, utilizing the Internet to transact retail brokerage business. Among these competitors are E*Trade Group, Inc., Trade Station Group, Inc., Charles Schwab & Co., Inc., and Ameritrade, Inc. The Company also faces competition for customers from full-commission brokerage firms, including Morgan Stanley Dean Witter & Co., Merrill Lynch and Salomon Smith Barney, as well as financial institutions and mutual funds.

myTrack's market data service competes with many providers of financial information over the Internet. It competes on quality and reliability, as well as speed and price. Principal competitors to myTrack are e-Signal, DTN, PC Quote, AT Financial, as well as many other Internet providers of financial information.

Competitors to the Dial/Data service include Interactive Data Corp., The Dow Jones Retrieval Service, Compuserve, Telescan and Commodity Systems, Inc. The Company competes in this market based on price, the quality and reliability of its data, the extent and breadth of historical information, ease of access and the negotiation of agreements with vendors that provide royalty arrangements they find attractive. Some of the Company's competitors provide both software and data services. The Company competes with such full service providers by attempting to enter into agreements with vendors of superior software.

Competitors of AIQ include Equis International (MetaStock), Windows on Wall Street, and many others. Generally, these competitors' products can be classified as "charting" packages. They concentrate their resources on general charting (graphical) and stock market back-testing capabilities, rather than the pre-programmed market analysis offered by the AIQ products. AIQ's TradingExpert Pro competes with Omega's TradeStation and MetaStock Professional.

MATTERS RELATED TO SEGMENTS, OTHER THAN ARBITRAGE TRADING

Securities Regulation

Track Data Securities Corp. ("TDSC") is a broker-dealer registered with the SEC and NASD and is licensed as a broker-dealer in 50 states.

The securities industry in the United States is subject to extensive regulation under federal and state laws. In addition, the SEC, NASD, other self regulatory organizations, such as the various stock exchanges, and other regulatory bodies, such as state securities commissions, require strict compliance with their rules and regulations. As a matter of public policy, regulatory bodies are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of clients participating in those markets, and not with protecting the interests of the Company's stockholders.

Broker-dealers are subject to regulations covering all aspects of the securities business, including sales methods, trade practices among broker-dealers, use and safekeeping of clients' funds and securities, capital structure, record keeping and the conduct of directors, officers and employees. Because of the number of complaints by online traders, the SEC, NASD and other regulatory organizations may adopt more stringent regulations for online firms and their practices. If the Company fails to comply with any laws, rules or regulations, the Company could be censured, fined, or issued a cease-and-desist order, or TDSC and/or its officers and employees could be suspended or expelled.

Operations

Clearing and Order Processing

The Company does not hold any funds or securities owned by its clients nor execute securities transactions. The Company clears all transactions for its clients, on a fully disclosed basis, with Penson Financial Services, Inc. ("Penson").

The Company's agreement with Penson provides that the clearing broker process all securities transactions for the Company's clients for a fee. Services of the clearing broker include billing and credit control and receipt, custody and delivery of securities. The Company has agreed to indemnify and hold the clearing broker harmless from certain liabilities or claims, including claims arising from the transactions of its clients, which could be material in amount. The Company's clearing agreement may be terminated by either party, upon 45 days' written notice. The Company relies on the operational capacity and the ability of the clearing broker for the orderly processing of transactions.

Clients' securities transactions are effected on either a cash or margin basis. In connection with margin transactions, credit is extended to a client, collateralized by securities and cash in the client's account, for a portion of the purchase price. The client is charged for margin financing at interest rates based on the broker call rate plus an additional amount of up to 2.50%. The broker call rate, also known as the "Call Money Rate," is the prevailing interest rate charged by banks on secured loans to broker-dealers.

Margin lending is subject to the margin rules of the Board of Governors of the Federal Reserve System. Margin lending subjects the Company to the risk of a market decline that would reduce the value of collateral below the client's indebtedness before the collateral could be sold. Under applicable rules, in the event of a decline in the market value of the securities in a margin account, the client is required to deposit additional securities or cash in the account. The margin agreement allows the Company or Penson to sell securities owned by the client under certain circumstances.

Although TDSC has approval by NASD-R for "clearing" of its Track ECN business, it is a unique and limited approval for it to submit two sided trade data respecting trades which were executed by broker-dealers on the Track ECN. TDSC submits this data to the National Securities Clearing Corporation so that the actual trading counterparties can and do compare, clear and settle their trades and, except in the case of a rare error, TDSC "drops out" of the clearing process. This effort to "self-clear" was a step to reduce costs of having a third part handle this function.

Network Infrastructure

The Company's external network consists of a series of routers and other Internet-networking equipment, mail, web and File Transfer Protocol (ftp) servers; these servers are connected to the Company's internal (i.e. protected) network. This permits a moderated connection to the Company's intranet, so that any computer that can connect to the Internet can access authorized services.

The Company's technology is supported by an internal staff of programmers, developers, and operators 24 hours a day, seven days a week. The programming staff is supplemented by a team of quality control analysts, web page developers, technical writers, and design specialists who ensure the final product is user-friendly and dependable. In addition to supporting the systems, the staff continually enhances software and hardware and develops new services. Software is designed to be versatile and easily adaptable to new and emerging technologies.

Net Capital Requirements

The SEC, NASD, and various other regulatory agencies have stringent rules requiring the maintenance of specific levels of net capital by securities brokers. These include the SEC's uniform net capital rule, which governs TDSC. Net capital is defined as assets minus liabilities, plus other allowable credits and qualifying subordinated borrowings less mandatory deductions that result from excluding assets that are not readily convertible into cash and from valuing other assets, such as a firm's positions in securities, conservatively. Among these deductions are adjustments in the market value of securities to reflect the possibility of a market decline prior to disposition.

As of December 31, 2005, TDSC was required to maintain minimum net capital, in accordance with SEC rules, of approximately $1 million and had total net capital of $1,935,000, or approximately $935,000 in excess of minimum net capital requirements.

If TDSC fails to maintain the required net capital, TDSC may be subject to suspension or revocation of registration by the SEC and suspension or expulsion by the NASD and other regulatory bodies, which ultimately could require TDSC's liquidation. In addition, a change in the net capital rules, the imposition of new rules, a specific operating loss, or any unusually large charge against net capital could limit those operations of TDSC that require the intensive use of capital and could limit its ability to expand its business.

Limited Proprietary Information

The Company relies on a combination of copyright, trademark and trade secret laws and non-disclosure agreements to protect its proprietary technologies, ideas, know-how and other proprietary information. The Company holds a United States trademark registration for the myTrack name. The Company has no patents or registered copyrights. Third parties may copy or otherwise obtain and use the Company's proprietary technologies, ideas, know-how and other proprietary information without authorization or independently develop technologies similar or superior to its technologies. Policing unauthorized use of its technologies and other intellectual property is difficult, particularly because the global nature of the Internet makes it difficult to control the ultimate destination or security of software or other data transmitted.

The financial information provided by the Company for its MarkeTrack, myTrack, proTrack, myTrack Pro, Dial/Data and NewsWatch services can be purchased from third-party sources and is not proprietary. The Company maintains proprietary economic and historical financial databases. The Company protects its proprietary information with standard secrecy agreements.

MarkeTrack, NewsWatch, myTrack, myTrack Pro, proTrack and Dial/Data are registered service marks owned by the Company. AIQ has registered trademarks for StockExpert, MarketExpert, OptionExpert and TradingExpert, as well as Opening Bell for its newsletter.

Research and Development

Expenditures for research and development incurred primarily to establish technological feasibility of a product or for product enhancement were approximately $210,000, $238,000 and $242,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

Employees

The Company employed approximately 150 persons on a full-time basis as of December 31, 2005. The Company believes that its relationship with its employees is satisfactory.

C. ARBITRAGE TRADING

The Company engages in arbitrage trading activity. The Company's trading strategy consists principally of establishing hedged positions consisting of stocks and options. The Company is subject to market risk in attempting to establish a hedged position, as the market prices could change, precluding a profitable hedge. In these instances, any positions that were established for this hedge would be immediately sold, usually resulting in small losses. If the hedged positions are successfully established at the prices sought, the positions generally stay until the next option expiration date, resulting in small gains, regardless of market value changes in these securities. While virtually all positions are liquidated at option expiration date, certain stock positions remain. The liquidation of these positions generally results in small profits or losses. From time to time, losses may result from certain dividends that may have to be delivered on positions held, as well as from certain corporate restructurings and mergers that may not have been taken into account when the positions were originally established.

In connection with the arbitrage trading activity, the Company incurs margin loans. The Company is exposed to interest rate change market risk with respect to these margin loans. The level of trading in the arbitrage trading account is partially dependent on the margin value of Track Data common stock pledged by its CEO, and Innodata and Edgar Online common stock, which is used as collateral. The market value of such securities is dependent on future market conditions for these companies over which the Company has little or no control.

ITEM 1A. RISK FACTORS

Risks Relating to Owning Our Stock

Market volatility may cause our stock price and the value of your investment to decline.

From January 1, 2004 through December 31, 2005, the price per share of our common stock has ranged from a low of $1.95 to a high of $9.80. The market price of our common stock has been, and is likely to continue to be, highly volatile and subject to wide fluctuations. In the past, volatility in the market price of a company’s securities has often led to securities class action litigation. Such litigation could result in substantial costs to us and divert our attention and resources, which could harm our business. Declines in the market price of our common stock or failure of the market price to increase could also harm our ability to retain key employees, reduce our access to capital and otherwise harm our business.

Broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. Factors that could cause fluctuations in our stock price may include, among other things:

- actual or anticipated variations in quarterly operating results;
- conditions or trends in our industry, including trading volumes, regulatory changes or changes in the securities marketplace;
- changes in the market valuations of other companies operating in our industry;
- announcements by us or our competitors of significant acquisitions, strategic partnerships or divestitures;
- announcements of investigations or regulatory scrutiny of our operations or lawsuits filed against us;
- additions or departures of key personnel; and
- sales of our common stock, including sales of our common stock by our directors and officers.

We have incurred losses in the past and we cannot assure you that we will be profitable.

We have incurred losses in the past and we may do so in the future. While we reported net income for 2004 and 2003, we reported a net loss of $37,000 for 2005.

Our Professional Market segment revenues experienced significant declines since 2001 from a combination of staffing reductions in the securities industry, the use by customers of internally developed services, or lower priced services offered by us or other vendors. This trend has continued in 2006. Track ECN currently offers the highest published rebate in the industry and has recently been successful in attracting new subscribers. Despite the addition of new subscribers, the Company has not been able to significantly increase revenues. Profit margins are very low in this business and significant volume is necessary to have an impact on the results of operations. The Company commenced self-clearing of its ECN business at the end of the third quarter of 2005 in an effort to decrease costs associated with ECN revenues.

Our Non-Professional Market segment revenues have been inconsistent month to month but have been down overall when compared to the same periods in the prior year. The Company is attempting to grow revenues in this segment, principally through marketing alliances and limited advertising to attract new customers, and by offering additional services to existing customers. The Company presently offers trading of U.S. based stocks, options, e-mini futures and foreign currency. Although the Company has recently introduced a new low priced trading application, myTrack Pro, engineered for the hyperactive traders, with a particular focus on options traders, there is no assurance the Company will be successful in marketing such new services.

We also engage in arbitrage trading activity. Our trading strategy consists principally of establishing hedged positions consisting of stocks and options. We are subject to market risk in attempting to establish a hedged position, as the market prices could change, precluding a profitable hedge. In these instances, any positions that were established for this hedge would be immediately sold, usually resulting in small losses. If the hedged positions are successfully established at the prices sought, the positions generally stay until the next option expiration date, resulting in small gains, regardless of market value changes in these securities. While virtually all positions are liquidated at option expiration date, certain stock positions remain. The liquidation of these positions generally results in small profits or losses. From time to time, losses may result from certain dividends that may have to be delivered on positions held, as well as from certain corporate restructurings and mergers that may not have been taken into account when the positions were originally established.

The Financial Accounting Standards Board (“FASB”) issued SFAS No. 123 (Revised 2004), Share-Based Payment, which among other things requires public companies to expense employee stock options and other share-based payments at their fair value when issued commencing January 1, 2006. At December 31, 2005, all of our outstanding stock options were fully vested. We expect that the adoption of this statement may have a material impact on our net income (loss) and earnings per share in future periods, upon the issuance of new awards. As a result of this impact on our financial results, we may be forced to decrease or eliminate employee stock option grants, which could, in turn, have a negative impact on our ability to attract and retain qualified employees.

Our officers, directors and largest stockholder have the ability to control all matters submitted to stockholders for approval and control the issuance of preferred stock.

Our principal stockholder may be able to control matters requiring a stockholder vote, such as unsolicited takeovers which may prevent investors from receiving a premium on their shares. As of February 28, 2006, Barry Hertz, our Chairman, directly or indirectly controlled approximately 56% of our shares. He is in a position to control the outcome of matters requiring a stockholder vote, including the election of directors. Such control could have the effect of discouraging, or making more difficult, an unsolicited acquisition of us by means of a tender offer, a proxy contest or otherwise, even though an unsolicited acquisition could have resulted in our stockholders receiving a premium for their shares or be otherwise economically beneficial to them.

Our right to issue preferred stock could dilute or diminish the value of existing investors' common stock. Our governing documents authorize the issuance of up to five million shares of preferred stock without stockholder approval, with dividend, liquidation, conversion, voting or other rights which could adversely affect the voting power or other rights of the holders of our common stock. Depending on the designations, rights and preferences of a particular issuance of preferred stock, such issuance could adversely affect the market value of our common stock.

Our right to issue preferred stock could also make a third-party acquisition of us difficult. In the event of issuance, the preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control. Although we have no present intention to issue any shares of preferred stock, there can be no assurance that we will not do so in the future.

Success of stockholder actions against directors is less likely as our directors' liability for their actions is limited and we may indemnify them if they are sued. Our governing documents limit the liability of our directors for breach of their fiduciary duty of care. The effect is to eliminate liability of directors for monetary damages arising out of negligent or grossly negligent conduct. Stockholder actions against our directors for monetary damages can only be maintained upon a showing of certain factors and not for director's negligence or gross negligence in satisfying their duty of care. The factors required to obtain monetary damages are a breach of the individual director's duty of loyalty, a failure to act in good faith, intentional misconduct, a knowing violation of the law, an improper personal benefit, or an illegal dividend or stock purchase. These documents also provide for indemnification as permitted by Delaware law. However, insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to our directors, officers or controlling persons pursuant to the foregoing provisions, we have been informed that in the opinion of the Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

Current litigation against our Chairman and CEO.

On June 14, 2005, the SEC filed a civil complaint against Barry Hertz, our Chairman and CEO, in the U.S. District Court for the Eastern District of New York in Brooklyn alleging violations of various provisions of the federal securities laws in connection with certain transactions in Track Data stock owned by others. The SEC seeks various remedies including an injunction, disgorgement of profits and an order barring Mr. Hertz from serving as an officer or director of a public company. Mr. Hertz has denied wrongdoing.

We may not pay dividends on our common stock.

We have paid dividends in the past but have not done so since March, 2004. There is currently no plan to pay dividends in the near future. Dividends in the future, if any, will be based on factors, among others, relating to future earnings and capital requirements and to the discretion of our board of directors.

Risks Relating to the Nature of the Financial Services Business

Many of our competitors have greater financial, technical, marketing and other resources.

Many of our competitors have greater resources than we do and offer a wider range of financial products and services. Many also have greater name recognition, greater market acceptance and larger customer bases. These competitors may conduct extensive promotional activities and offer better terms, lower prices and/or different products and services than we do. Moreover, some of our competitors have established relationships among themselves or with third parties to enhance their products and services. This means that our competitors may be able to respond more quickly to new or changing opportunities and demands and withstand changing market conditions better than we can.

This intense competition has resulted in several trends that may adversely affect our financial condition and results of operations, including the implementation of new pricing strategies, consolidation in the industry and increased emphasis on advertising and promotional efforts.

We face direct competition from numerous online and software-based brokerage firms, including Charles Schwab & Co., Inc., E*TRADE Group, Inc., Ameritrade, Inc. and TradeStation Group, Inc. We also encounter competition from the broker-dealer affiliates of established full commission brokerage firms, as well as from financial institutions, mutual fund sponsors and other organizations, some of which provide online brokerage services.

We believe that the general financial success of companies within the online securities industry will continue to attract new competitors to the industry, such as banks, software development companies, insurance companies, providers of online financial information and others. These companies may provide a more comprehensive suite of services than we do. We may not be able to compete effectively with our current or future competitors.

A decline in activity levels in the securities markets could lower demand for our services.

Our business is dependent upon the health of the financial markets as well as the financial health of the participants in those markets. Some of the demand for financial data and information is dependent upon activity levels in the securities markets while other demand is static and is not dependent on activity levels. In the event that the U.S. or international financial markets suffer a prolonged downturn that results in a significant decline in investor activity, our revenue levels could be materially adversely affected. We have experienced higher than normal cancellations or downgrades as a result of the cost cutting pressures evident in the financial services sector in recent years and such cancellations or downgrades may continue.

Consolidation of financial services within and across industries could lower demand for our services.

As consolidation occurs and synergies are achieved, the number of potential customers for our services decreases. This consolidation has two forms: consolidations within an industry, such as banking, and across industries, such as consolidations of insurance, banking and brokerage companies. When two companies that separately subscribe to or use our services combine, they may terminate or reduce duplicative subscriptions for our services or if they are billed on a usage basis, usage may decline due to synergies created by the business combination. We experienced higher than normal cancellations in recent years as a result of this trend and these consolidations and cancellations may continue. A large number of cancellations, or lower utilization resulting from consolidations, could have a material adverse effect on our revenue.

The continuing impact of cost-cutting pressures across the financial services industry could cause lower demand for our services.

Many customers within the financial services industry are striving to reduce their operating costs. To achieve this goal, customers may seek to reduce their spending on market data services. If customers elect to reduce their spending with us, our results of operations could be materially adversely affected. Alternatively, customers may use other strategies to reduce their overall spending on market data services, either by consolidating their spending with a fewer number of vendors or by selecting vendors with lower-cost offerings. If customers elect to consolidate their spending on market data services with other vendors and not us, or if we cannot price our services as aggressively as the competition, our results of operations could be materially adversely affected.

Servicing customers outside the United States involves special challenges that we may not be able to meet, which could negatively impact our financial results.

To date, our operations are principally located in the United States, with Internet access to our products from outside the United States. Since our services are available over the Internet in foreign countries and we have customers residing in foreign countries, foreign jurisdictions may claim that we are required to qualify to do business in their country. We believe that the number of our customers residing outside of the United States will increase over time. We are required to comply with the laws and regulations of each country in which we conduct business, including laws and regulations currently in place or which may be enacted related to Internet services available to their citizens from service providers located elsewhere. Any failure to develop effective compliance and reporting systems could result in regulatory penalties in the applicable jurisdiction, which could have a material adverse effect on our business, financial condition and operating results.

In addition, in the future we may choose to offer foreign securities brokerage services. There are certain risks inherent in doing so. Among other risks, we may face less developed technological infrastructures, less developed automation in exchanges, depositories and national clearing systems, exchange rate fluctuations, increased credit risk and unexpected changes in regulatory requirements, tariffs and other trade barriers. If we choose to do business through an international entity, we may also face barriers to repatriation of foreign earnings. Any of these factors could have a material adverse effect on our future international operations and consequently on our business, financial condition and operating results.

If we fail to attract customers in a cost-effective manner, our profitability and growth may be impaired.

Our profitability and growth depends on increasing our customer base in a cost-effective manner. We expect to increase our advertising and related expenses. There are no assurances that these efforts will be cost-effective at attracting new customers. In particular, we believe that rates for desirable advertising and marketing placements are likely to increase in the foreseeable future, and we may be disadvantaged relative to our larger competitors in our ability to expand or maintain our advertising and marketing commitments. Additionally, filter software programs that limit or prevent our advertisements and other communications from being displayed on or delivered to our current and potential customers' computers are becoming increasingly available. If this type of software becomes widely accepted, it would negatively affect Internet advertising. Finally, our sales and marketing methods are subject to regulation by the NASD. Their rules and regulations impose specific limitations on our sales methods, including our advertising and payments to non-broker-dealers. If we do not achieve our advertising objectives, our profitability and growth may be impaired.

We are subject to various forms of credit risk, and those risks could have a material adverse effect on our financial situation.

Through an arrangement with our clearing firms, we extend margin credit and leverage to our customers, which is subject to various regulatory and clearing firm margin requirements. Margin credit is collateralized by cash and securities in the customers' accounts. Leverage involves securing a large potential future obligation with a proportional amount of cash or securities. The risks associated with margin credit and leverage increase during periods of fast market movements or in cases where leverage or collateral is concentrated and market movements occur. During such times, customers who utilize margin credit or leverage and who have collateralized their obligations with securities may find that the securities have a rapidly depreciating value and may not be sufficient to cover their obligations in the event of a liquidation. We are also exposed to credit risk when our customers execute transactions, such as short sales of options and equities that can expose them to risk beyond their invested capital.

We expect this kind of exposure to increase with growth in our overall business. Because we indemnify and hold harmless our clearing firms from certain liabilities or claims, the use of margin credit, leverage and short sales may expose us to significant off-balance-sheet risk in the event that collateral requirements are not sufficient to fully cover losses that customers may incur and those customers fail to satisfy their obligations. As of December 31, 2005, we had $14 million in margin credit extended to our customers through our clearing firms. The amount of risk to which we are exposed from the leverage we extend to our customers and from short sale transactions by our customers is unlimited and not quantifiable as the risk is dependent upon analysis of a potential significant and undeterminable rise or fall in stock prices.

Our risk management policies and procedures may not be effective and may leave us exposed to unidentified or unexpected risks.

Our policies, procedures and practices used to identify, monitor and control a variety of risks may fail to be effective. As a result, we face the risk of losses, including losses resulting from firm errors, customer defaults, market movements, fraud and money-laundering. Our risk management methods rely on a combination of technical and human controls and supervision that are subject to error and failure. Some of our methods of managing risk are based on internally developed controls and observed historical market behavior, and also involve reliance on industry standard practices. These methods may not adequately prevent future losses, particularly as they relate to extreme market movements, which may be significantly greater than the historical measures indicate. These methods also may not adequately prevent losses due to technical errors if our testing and quality control practices are not effective in preventing technical software or hardware failures.

We may suffer losses if our reputation is harmed.

Our ability to attract and retain customers and employees may be adversely affected to the extent our reputation is damaged. If we fail, or appear to fail, to deal with various issues that may give rise to reputational risk, we could harm our business prospects. These issues include, but are not limited to, appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, money-laundering, privacy, record-keeping, sales and trading practices, and the proper identification of the legal, reputational, credit, liquidity, and market risks inherent in our business. Failure to appropriately address these issues could also give rise to additional legal risk to us, which could, in turn, increase the size and number of claims and damages asserted against us or subject us to regulatory enforcement actions, fines, and penalties.

Systems failures and delays could harm our business.

We receive and process trade orders through a variety of electronic channels. Our online trading services are heavily dependent on the integrity of the systems supporting them. Our systems and operations, including our Web servers, and those of our third-party service providers are vulnerable to damage or interruption from human error, sabotage, encryption failures, break-ins, intentional acts of vandalism, earthquakes, terrorist attacks, floods, fires, power loss, telecommunications failures, computer viruses, computer denial of service attacks or other attempts to harm our systems and operations, and similar events. Our disaster recovery planning cannot account for all eventualities. In addition, extraordinary trading volumes could cause our computer systems to operate at an unacceptably low speed or even fail. While we have invested significant amounts to upgrade the reliability and scalability of our systems, there can be no assurance that our systems will be sufficient to handle such extraordinary trading volumes.

Systems failures or delays may occur in the future and could cause, among other things, unanticipated disruptions in service to our customers, slower system response time resulting in transactions not being processed as quickly as our customers desire, decreased levels of customer service and customer satisfaction and harm to our reputation. If any of these events were to occur, we could suffer: a loss of customers or a reduction in the growth of our customer base; increased operating expenses; financial losses; litigation or other customer claims; and regulatory sanctions or additional regulatory burdens.

Our business also depends on the continued reliability of the Internet infrastructure. This includes maintenance of a reliable network backbone with the necessary speed, data capacity and security for providing reliable Internet services. Internet infrastructure may be unable to support the demands placed on it if the number of Internet users continues to increase, or if existing or future Internet users access the Internet more often or increase their bandwidth requirements. In addition, viruses, worms and similar programs may harm the performance of the Internet. The Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure, and it could face outages and delays in the future. These outages and delays could reduce the level of Internet usage and our business could be materially adversely affected.

Our networks and those of our third-party service providers may be vulnerable to security risks.

The secure transmission of confidential information over public networks is a critical element of our operations. Our networks and those of our third-party service providers may be vulnerable to unauthorized access, computer viruses and other security problems. Persons who circumvent security measures could wrongfully use our confidential information or our customers' confidential information or cause interruptions or malfunctions in our operations. We or our service providers may be required to expend significant additional resources to protect against the threat of security breaches or to alleviate problems caused by any breaches. We or our service providers may not be able to implement security measures that will protect against all security risks.

Our inability to protect our intellectual property rights or our infringement of the intellectual property rights of others could adversely affect our business.

Our success and ability to compete in the online securities industry depends in part upon our technology. Laws and our contractual terms may not be sufficient to protect our technology from use or theft by third parties. For instance, a third party might try to reverse engineer or otherwise obtain and use our technology without our permission and without our knowledge, allowing competitors to duplicate our products. We may have legal or contractual rights that we could assert against such illegal use, but lawsuits claiming infringement or misappropriation are complex and expensive, and the outcome would not be certain. We may choose not to enforce or protect our intellectual property rights, depending on our strategic evaluation and judgment regarding the best use of our intellectual property portfolio and the recourse available to us.

Patents of third parties may have an important bearing on our ability to offer certain of our products and services. Our major competitors as well as other companies and individuals may obtain and may have obtained patents related to the technologies for trading the types of products and providing the services we offer or plan to offer. We cannot assure you that we are or will be aware of all patents containing claims that may pose a risk of infringement by our products and services. In addition, some patent applications in the United States are confidential until a patent is issued and, therefore, we cannot evaluate the extent to which technology concerning our products and services may be covered or asserted to be covered by claims contained in pending patent applications. In general, if one or more of our products or services were found by a court to infringe patents held by others, we may be required to stop developing or marketing the products or services, to obtain licenses to develop and market the services from the holders of the patents or to redesign the products or services in such a way as to avoid infringing those patents. An adverse ruling arising out of any intellectual property dispute could also subject us to significant liability for damages.

We cannot assess the extent to which we may be required in the future to obtain licenses with respect to patents held by others, whether such licenses would be available or, if available, whether we would be able to obtain such licenses on commercially reasonable terms. If we are unable to obtain licenses with respect to patents held by others, and are unable to redesign our products or services to avoid infringement of any such patents, this could materially adversely affect our business, financial condition and operating results.

Also, protection may not be available for our other intellectual property. Although we have registered trademarks in the United States, there can be no assurance that we will be able to secure significant protection for these marks. It is possible that our competitors will adopt product or service names similar to ours, thereby impeding our ability to build brand identity and possibly leading to customer confusion. Our inability to adequately protect our marks could have a material adverse effect on our business, financial condition and operating results.

We will need to introduce new products and services to remain competitive.

Our future success depends in part on our ability to develop and enhance our products and services. The financial services industry is characterized by rapid technological change and the emergence of new industry standards and practices that could render our existing technology and systems obsolete. There are significant technical and financial risks in the development of new or enhanced products and services, including the risk that we will be unable to effectively use new technologies or adapt our services to emerging industry standards, or develop, introduce and market enhanced or new products and services. In addition, the adoption of new Internet, networking or telecommunications technologies or other technological changes could require us to incur substantial expenditures to modify or adapt our services or infrastructure.

We may make acquisitions, and we may be unable to successfully integrate those acquisitions with our business, impairing our financial performance.

If appropriate opportunities present themselves, we may acquire businesses, products or technologies that we believe are strategic. If we do succeed in acquiring a business, product or technology, we have limited experience in integrating an acquisition into our business. The process of integration may produce unforeseen operating difficulties and expenditures and may absorb significant attention of our management that would otherwise be available for the ongoing development of our business, which may harm our business, financial condition or results of operations.

We are dependent on our clearing agent, Penson Financial Services, Inc., and any failure by them or difficulties in our relationship could materially harm our business.

We are dependent on Penson Financial Services, Inc. and certain other clearing agents for the orderly processing of transactions. Our principal relationship is with Penson.

Our clearing agreement with Penson may be terminated by either party upon 45 days prior written notice. Breaches or termination of these agreements or the clearing firms' agreements with their third-party suppliers could harm our business. Termination of our relationship with Penson could expose us to certain capital reserve requirements and other complex regulatory requirements imposed by federal and state securities laws, which could have a material adverse effect on our business. Moreover, we have agreed to indemnify and hold harmless our clearing firms from certain liabilities or claims, including claims arising from the transactions of our customers, and may incur significant costs as a result.

<u>The loss of or change in our third-party vendors may adversely affect our business.</u>

We rely on a number of third parties for various services. These include the services of market makers and exchanges to execute customer orders and other third parties for back-office services and other information necessary to run our business, including transaction summaries, data feeds for compliance and risk management, execution reports and trade confirmations. The stock and option exchange and other third-party content providers provide us with all of the financial information, market news, charts, option and stock quotes, research reports and other fundamental data that we offer to customers. Our Track ECN business is currently dependent on Nasdaq's trading platform to display and execute most of the ECNs business, as to which there is no assurance that such venue will continue to be available under the same or similar business terms.

We cannot assure you that any of these providers will be able to continue to provide these services in an efficient, cost-effective manner or that they will be able to adequately expand their services to meet our needs. An interruption in or the cessation of service by any third-party service provider as a result of systems failures, capacity constraints, unanticipated trading market closures or for any other reason, and our inability to make alternative arrangements in a smooth and timely manner, if at all, may have a material adverse effect on our business, financial condition and operating results.

<u>Our exposure to possible litigation could adversely affect our business.</u>

Because of the extent and complexity of our regulatory environment and the products we offer, many aspects of our business involve substantial risks of liability. In recent years, there has been an increasing incidence of litigation involving the securities brokerage industry, including class action and other suits that generally seek substantial damages, including in some cases punitive damages. Any such litigation brought in the future could have a material adverse effect on our business, financial condition and operating results.

We also face potential indirect liability for claims of defamation, negligence, copyright, patent or trademark infringement, violation of the securities laws and other claims based upon the third-party content that we distribute online. Computer failures may also result in our widely publishing and distributing incorrect data. Our insurance may not necessarily cover any of these claims or may not be adequate to protect us against all liability that may be imposed. Any such litigation brought in the future could have a material adverse effect on our business, financial condition and operating results.

<u>Losses due to employee or customer fraud could have an adverse effect on our business.</u>

We are exposed to potential losses resulting from fraud and other misconduct by employees and customers. Employees may bind us to transactions that exceed authorized limits or present unacceptable risks, hide from us unauthorized or unsuccessful activities or improperly use confidential information. Customers may engage in fraudulent activities, including fraudulent access to legitimate customer accounts or the use of a false identity to open an account, or the use of forged or counterfeit checks for payment. Such types of fraud may be difficult to prevent or detect, and we may not be able to recover the losses caused by such activities. Any such losses could have a material adverse effect on our business, financial condition and operating results.

Risks Relating to Regulation of Our Business

We operate in a highly regulated industry and compliance failures could adversely affect our business.

We operate under extensive regulation, which increases our cost of doing business and is a limiting factor on the operations and development of our business. The Securities and Exchange Commission, or SEC, commissions regulate us. Outside the United States, we also may be subject to regulation by securities regulatory authorities in the countries where our customers are located. The securities industry in the United States is subject to extensive regulation covering all aspects of the securities business, including: sales methods; trade practices; use and safekeeping of customer funds and securities; capital structure; record-keeping; financing of customers' purchases; and conduct of directors, officers and employees.

Failure to comply with any of the laws, rules or regulations applicable to us, even inadvertently, could lead to adverse consequences including censure, fine, the issuance of cease-and-desist orders or the suspension or disqualification of directors, officers or employees. Any of these adverse consequences could affect our business. It is also possible that any noncompliance could subject us to criminal penalties and civil lawsuits. An adverse ruling against us or our officers or other employees could cause our subsidiaries or our officers and other employees to pay a substantial fine or settlement, and could result in their suspension or expulsion. Any of these events could have a material adverse effect on our business.

Changes in legislation or regulations may affect our ability to conduct our business or reduce our profitability.

The regulatory environment in which we operate may change. These changes may affect our ability to conduct our business or reduce our profitability. Our activities may be affected not only by legislation or regulations of general applicability, but also by industry-specific legislation or regulations. The SEC, other U.S. or foreign governmental authorities, the NASD or other SROs may adopt new or revised regulations which affect our business. Changes in the interpretation or enforcement of existing laws and rules by those entities may also affect our business.

Track ECN presently displays orders submitted by its subscribers on Nasdaq's trading platform. Broker-dealers can access this liquidity through Nasdaq. Nasdaq is presently authorized to operate as an exchange and has published information about anticipated changes that it prefers that could be detrimental to Track ECNs continued ability to do business on Nasdaq. If these or other changes were to occur, Track ECN may have to seek alternative venues to conduct its business. Presently, there are no such viable alternatives to conduct its business in the same manner as it does presently. A change of venues, if available, could likely result in significantly less volume of transactions executed through Track ECN, resulting in a significant reduction in revenues.

In addition, we use the Internet as the distribution channel to provide services to our customers. A number of regulatory agencies have recently adopted regulations regarding customer privacy and the use of customer information by service providers. Additional laws and regulations relating to the Internet may be adopted in the future, including regulations regarding the pricing, taxation, content and quality of products and services delivered over the Internet. Complying with these laws and regulations is expensive and time consuming and could limit our ability to use the Internet as a distribution channel.

Failure to comply with net capital requirements could adversely affect our business.

The SEC, the NASD and other SROs have stringent rules with respect to the maintenance of specific levels of net capital by securities broker-dealers. Our broker-dealer subsidiary is required to comply with the net capital requirements. If we fail to maintain the required net capital, the SEC could fine us or even suspend or revoke our registration, or the NASD could sanction us, including by limiting our growth or expelling us from membership. Any of these actions could have a material adverse effect on our business.

The net capital requirements also provide that the SEC may restrict for up to 20 business days any withdrawal of equity capital, or unsecured loans or advances to stockholders, employees or affiliates, commonly called capital withdrawal, if the capital withdrawal, together with all other net capital withdrawals during a 30-day period, exceeds 30% of excess net capital and the SEC concludes that the capital withdrawal may be detrimental to the financial integrity of the broker-dealer.

Procedures and requirements of the Patriot Act may expose us to significant costs or penalties.

As participants in the financial services industry, our subsidiary is subject to laws and regulations, including the Patriot Act of 2001, that require that it know its customers and monitor transactions for suspicious financial activities. The cost of complying with the Patriot Act and related laws and regulations is significant. We face the risk that our policies, procedures, technology and personnel directed toward complying with the Patriot Act are insufficient and that we could be subject to significant criminal and civil penalties due to noncompliance. Such penalties could have a material adverse effect on our business, financial condition and operating results. As an online broker with customers worldwide, we may face particular difficulties in identifying our customers and monitoring their activities.

ITEM 2. PROPERTIES

The Company’s executive offices are located at 95 Rockwell Place, Brooklyn, NY. These offices are leased from a family partnership controlled by the Company’s Chairman. The annual rental of approximately 36,000 square feet is approximately $623,000. The lease expires in April, 2006 and is expected to be renewed for another one-year period. The Company believes that the terms of this lease are at least as favorable to it as terms which it would have obtained in a comparable transaction with unaffiliated persons.

The Company maintains sales and/or service offices in Brooklyn, NY, Chicago, IL, Los Angeles, CA, San Francisco, CA, Boston, MA, Incline Village, NV, Philadelphia, PA, Boca Raton, FL, and Dallas, TX with aggregate annual rentals of $1,045,000 in 2005. The Company also maintains a full service office in London, England under a lease with annual rental of $27,000 in 2005. These leases expire at various dates through 2010.

The Company's facilities are fully utilized and are suitable and adequate for their purpose.

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the Company's financial position.

On June 14, 2005, the SEC filed a civil complaint against Barry Hertz, the Company’s Chairman and CEO, in the U.S. District Court for the Eastern District of New York in Brooklyn alleging violations of various provisions of the federal securities laws in connection with certain transactions in Track Data stock owned by others. The SEC seeks various remedies including an injunction, disgorgement of profits and an order barring Mr. Hertz from serving as an officer or director of a public company. Mr. Hertz has denied wrongdoing and filed a motion for summary judgment dismissing the complaint. The SEC has filed a cross-motion for partial summary judgment. Those motions are currently pending before the Court.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting on December 1, 2005. The results of matters voted at that Meeting are presented below:

Election of Directors:

Nominee	***For***	***Withheld***	***Abstain***	***Against***
Abraham Biderman	7,075,226	28,520		
Albert Drillick	7,075,626	28,120		
E. Bruce Fredrikson	7,076,641	27,105		
Barry Hertz	7,071,544	32,202		
Martin Kaye	7,075,793	27,953		
Philip Ort	7,075,866	27,880		
Shaya Sofer	7,070,973	32,773		
Stanley Stern	7,072,852	30,894		
Appointment of Auditors:	7,081,623		2,107	20,015

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's Common Stock is quoted on the Nasdaq National Market System under the symbol "TRAC." On February 28, 2006, there were 262 stockholders of record of the Company's Common Stock based on information provided by the Company's transfer agent. Virtually all of the Company's publicly held shares are held in "street name" and the Company believes the actual number of beneficial holders of its Common Stock to be approximately 13,000.

The following table sets forth the high and low sales prices for the Company's Common Stock as reported on Nasdaq:

	Common Stock Sale Price	
	High	**Low**
2004		
First Quarter	$9.80	$5.05
Second Quarter	8.00	4.10
Third Quarter	5.70	3.60
Fourth Quarter	5.35	3.30
2005		
First Quarter	$5.00	$2.50
Second Quarter	3.21	1.95
Third Quarter	3.41	2.30
Fourth Quarter	3.55	2.70

On January 18, 2005, the Board of Directors authorized a one-for-five reverse stock split, which was consented to by the Company’s Chairman, CEO and principal stockholder. The stock split became effective on February 28, 2005. All share and per share information in this report retroactively reflect such stock split.

Dividends

The Company paid its first cash dividend of $.05 per share on its Common Stock on September 22, 2003. The Company declared a second dividend on February 19, 2004 of $.05 per share. The future payment of dividends, if any, on the Common Stock is within the discretion of the Board of Directors and will depend on the Company's earnings, its capital requirements, financial condition, and other relevant factors.

Issuer Purchases of Equity Securities

Period Purchased	Number of Shares of Common Stock Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares That May Yet be Purchased Under the Plans
October, 2005				
November, 2005				
December, 2005				1,000,000
Total	None		None	

On November 1, 2005, the Board of Directors approved a buy back of up to 1,000,000 shares of the Company's Common Stock in market or private negotiated transactions from time to time.

ITEM 6. SELECTED FINANCIAL DATA

Year Ended December 31,	2005	2004	2003	2002	2001
	(in thousands, except earnings and dividends per share)				
SERVICE FEES AND REVENUE	$ 36,094	$ 40,093	$ 40,881	$ 57,188	$ 62,217
COSTS, EXPENSES AND OTHER:					
Direct operating costs	25,002	23,544	23,201	31,309	29,539
Selling and administrative expenses	13,108	14,415	15,098	19,307	19,560
Marketing and advertising	274	414	394	659	1,243
(Gain) write off of investments in private companies	(412)	-	-	716	-
Gain on arbitrage trading	(819)	(1,512)	(1,891)	(445)	(1,800)
Gain on marketable securities-Innodata and Edgar Online	(1,067)	(5,887)	(624)	(124)	-
Other income	-	-	-	-	(1,949)
Interest expense (income) - net	223	305	107	657	(58)
Total	36,309	31,279	36,285	52,079	46,535
(LOSS) INCOME BEFORE EQUITY IN NET INCOME OF AFFILIATE AND INCOME TAXES	(215)	8,814	4,596	5,109	15,682
EQUITY IN NET INCOME OF AFFILIATE	-	-	-	-	276
(LOSS) INCOME BEFORE INCOME TAXES	(215)	8,814	4,596	5,109	15,958
INCOME TAXES (BENEFIT) EXPENSE	(178)	3,614	1,750	2,118	4,880
NET (LOSS) INCOME	$ (37)	$ 5,200	$ 2,846	$ 2,991	$ 11,078
BASIC AND DILUTED NET (LOSS) INCOME PER SHARE	$(.00)	$.53	$.29	$.28	$.93
DIVIDENDS PER SHARE	$.00	$.05	$.05	$.00	$.00
WEIGHTED AVERAGE SHARES OUTSTANDING	9,221	9,732	9,942	10,525	11,919
ADJUSTED DILUTIVE SHARES OUTSTANDING					